



California Energy Commission

March 10, 2009

Electricity Analysis Office

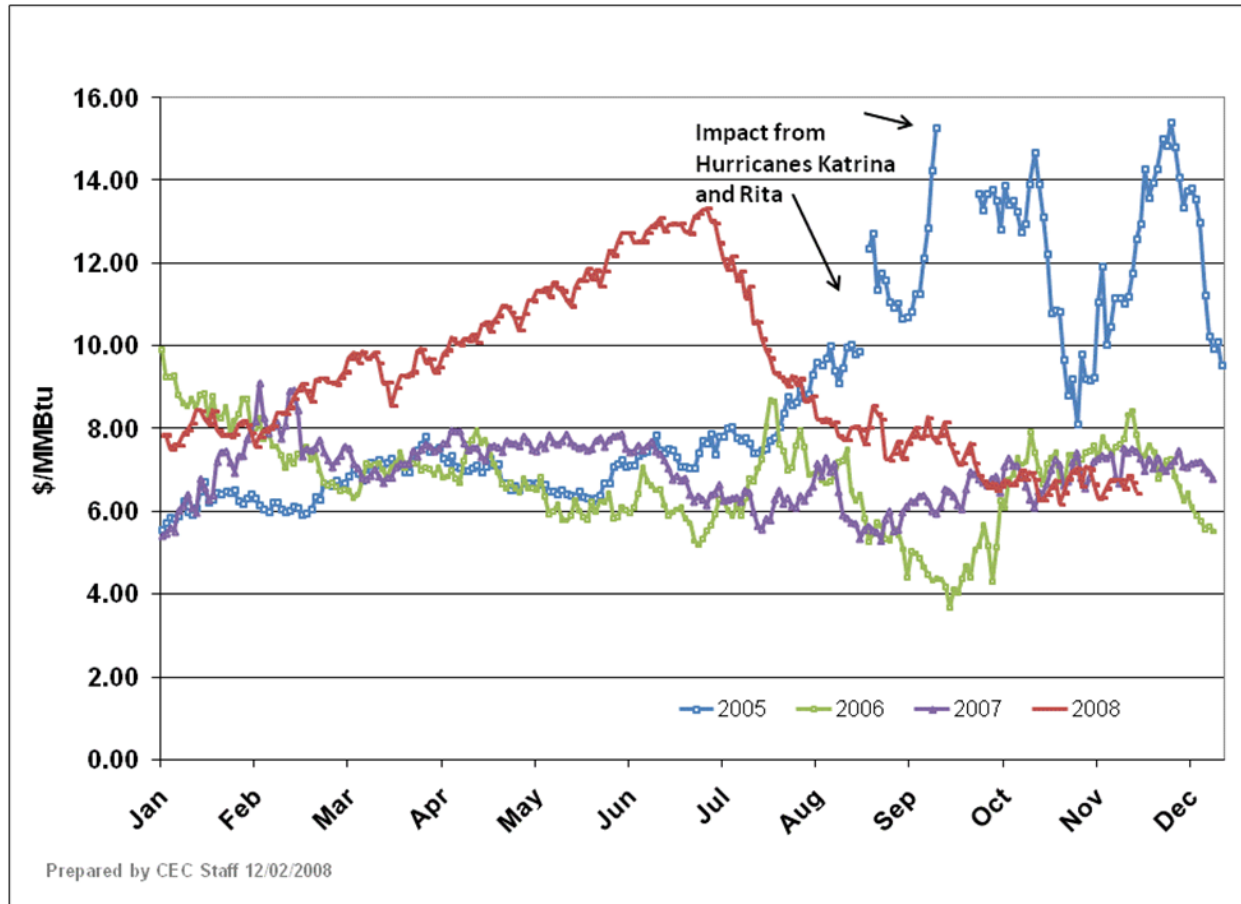
Generation Fuels Unit

Lana Wong



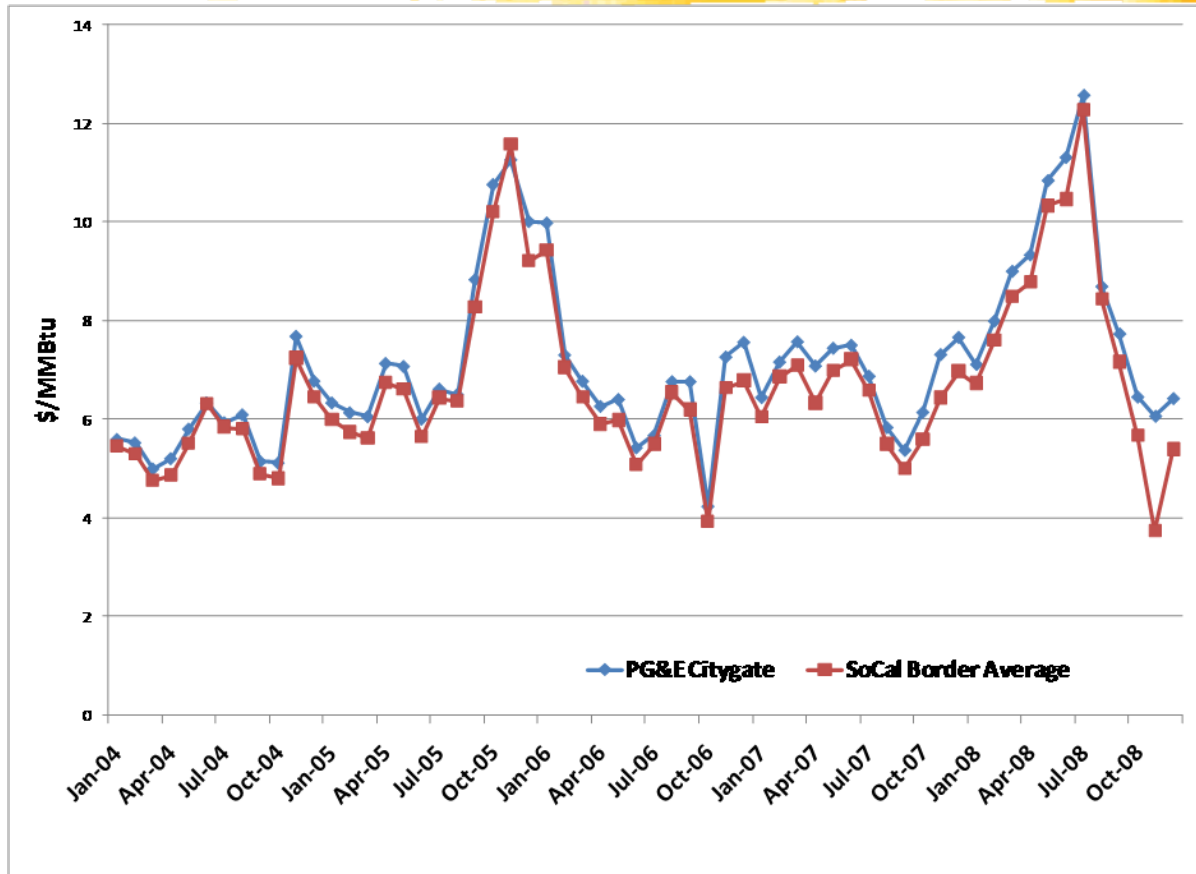
HOW DO THE GAS UTILITIES PROCURE NATURAL GAS FOR CORE RESIDENTIAL CUSTOMERS?

Henry Hub Daily Spot Prices



Are core residential customers exposed to these high natural gas prices?

Bidweek Average Monthly Natural Gas Prices 2004 - 2008 (\$/MMBtu)

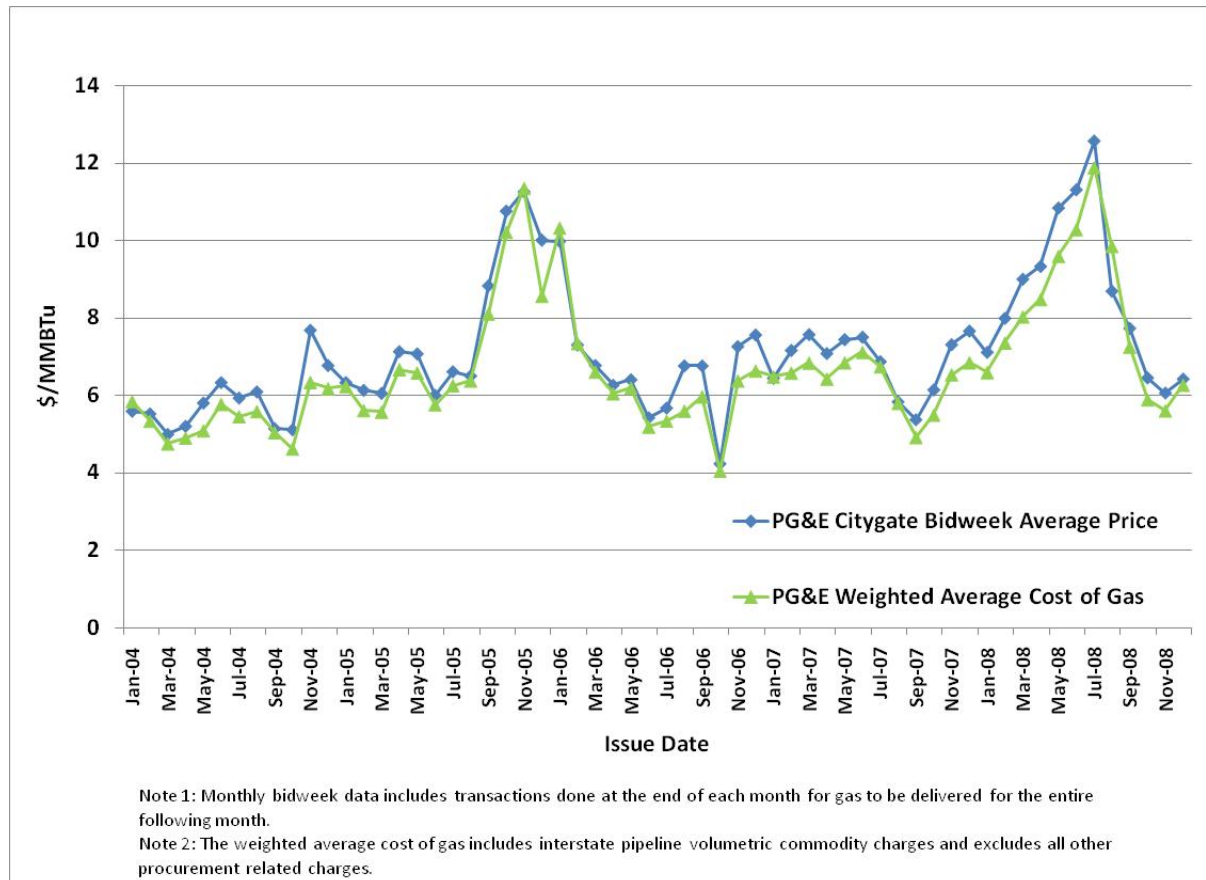


Bidweek occurs during the last week of each month for delivery during the next month at a fixed price

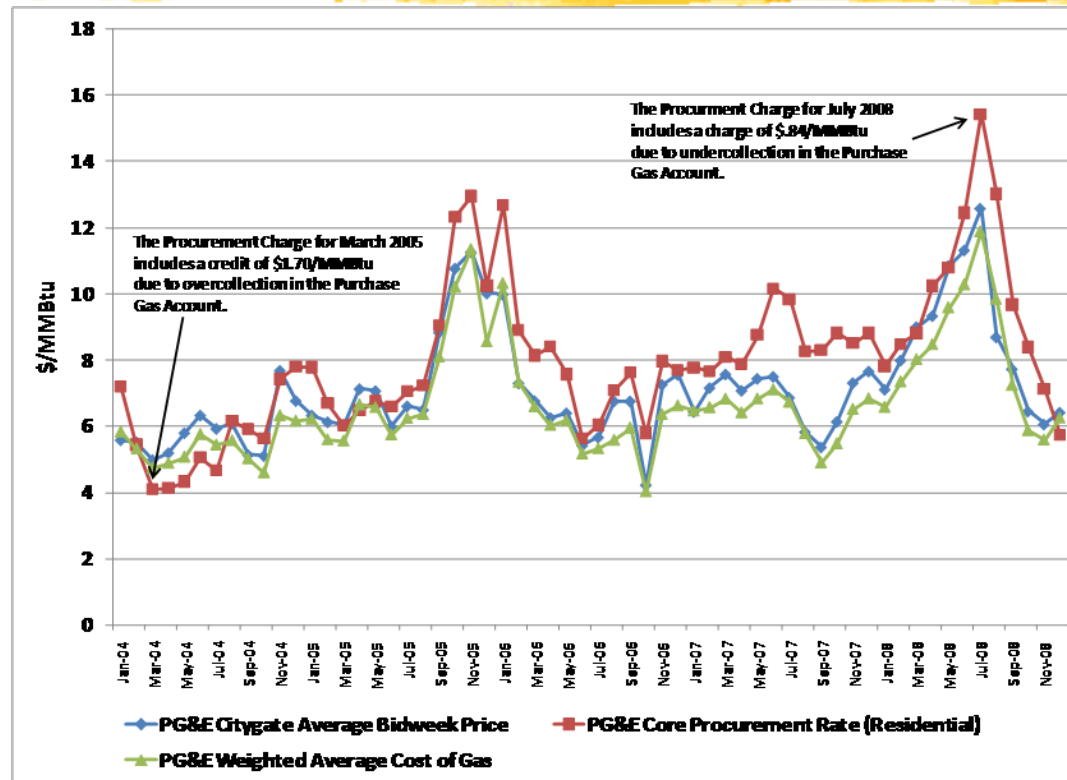
Price Comparison of PG&E Weighted Average Cost of Gas to PG&E Citygate Bidweek Prices (\$/MMBtu)



PG&E Weighted Average Cost of Gas tracks PG&E Citygate Bidweek Average Price (\$/MMBtu)



PG&E Core Procurement Charge

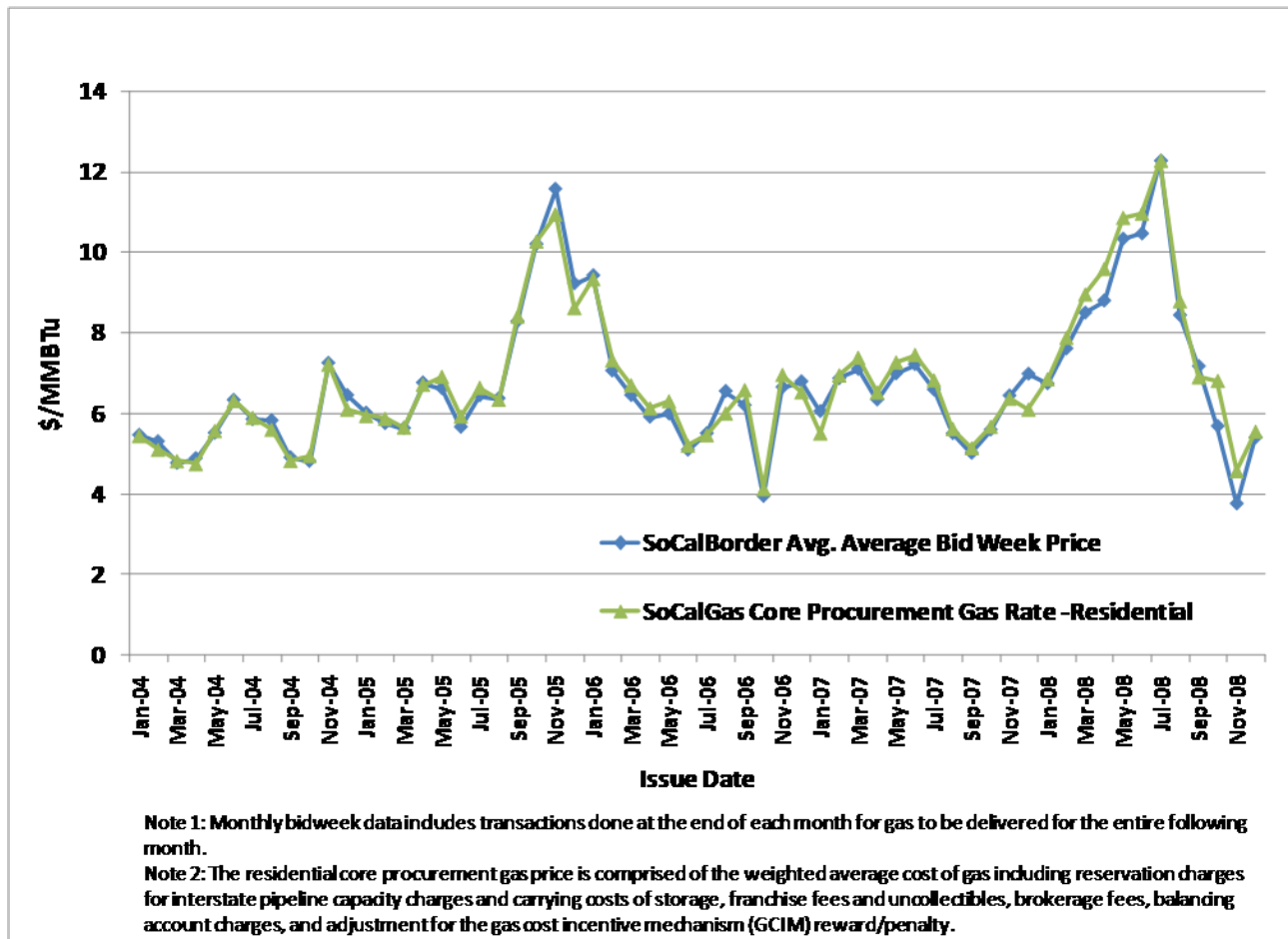


- The procurement charge is the retail rate charged to customers and includes WACOG and other procurement related fees, such as storage fees, capacity charges, hedging costs, brokerage fees, franchise fees & uncollectibles, etc.
- The procurement charge exhibits a similar price pattern and volatility as the index.

SoCalGas Core Procurement Charge



SoCalGas Core Procurement Charge (\$/MMBtu) tracks the index.



Summary



- Utilities primarily procure natural gas under short-term monthly contracts
- Long-term fixed price contracts are discouraged
- Gas Cost Incentive Mechanisms provide overarching guidelines to how the utilities procure natural gas
- Benchmark within the incentive mechanisms is based on monthly and some daily indices
- The data shows that utilities are buying gas for their core customers largely at the monthly bidweek index
- Ratepayers are not immune to the high prices in the marketplace, but gas utilities employ limited hedges